DATE: October 5, 1996
TO: Board of Directors, Point Foundation
FROM: David Katz
RE: Report on options for Whole Earth Review and the current operating situation at Point Foundation.

As per your request, here is a written report on the material I presented to the board on 23 September, 1996. Please refer to the budget materials and other documentation submitted to you prior to the meeting for more detail on the subjects discussed below.

I. DISCUSSION OF OPTIONS FOR STARTING UP THE WHOLE EARTH REVIEW

1. Proceeding with the current plan. The current plan, as expressed by staff and board and articulated in proposals and letters to funders over the last year, is to re-launch the magazine along the same lines as before, but with a stronger revenue base. This stronger revenue base includes the development of a paid space advertising program and an active program to obtain new subscribers. As shown on the detailed proforma budget for 1997, this approach will require raising $390k in new capital in '97 even after raising subscription and newsstand prices 30%. It is estimated that an additional $500k in new capital will be required in total for '98 & '99 as well. Approximately $300k would be spent over the 36 month period to attract the new subscribers required to get the magazine to the break-even point. This plan assumes that virtually all of the funds raised from the subscribers in '96 will be spent in 1996 ramping up operations.

The projection assumes successful launching of an advertising program, good response to renewals and new subscription promotions, and that an adequate staff can be attracted while paying salaries 25 to 40 percent below those paid in publishing and/or the non-profit sector in the bay area. Initial analysis shows that the magazine needs total paid circulation of at least 60k (subscriptions & news-stand) to come close to break-even. By way of additional background, over the last several years Point has been unable to raise more than $50k per year from grants and donations, excluding the approximately $118,000 recently raised from subscribers. Lastly, no funds are in the budget for a WWW version of the magazine, which would be a good strategic move for WER. Refer to the notes pages attached to the budget projections for other assumptions. It is likely that some of the contractual obligations Point now has will require use of funds in 1997. This additional potential spending is not provided for in the budget.

In order for the above scenario to succeed a number of essential factors must be in place:

a) clear articulation of the organization's vision with a clear understanding of who the magazine's potential audience is what they want.
b) strong leadership on the board and/or staff.
c) publishing and editorial expertise to guide the growth of the magazine.
d) development and implementation of a strong fund-raising program.

Often niche magazines run by non-profit organizations depend on an 'angel', a deep-pockets individual, to make up the magazine's operating deficit every year. This would be an ideal option for WER, although it is hard to predict how and when such an angel can be found.

2. Taking the for-profit route. This would involve either a)selling the magazine & related assets, b)licensing the name only, or c)creating some sort of joint venture. In all variations of this approach Point would loose editorial control of the magazine sooner or later. However, this solution may offer a way to continue publication, albeit in a different form, allowing Point to meet its obligations to the subscribers and other creditors.

Indications from the current magazine marketplace support the idea that a magazine targeting the baby-boomer audience that includes the WER subscriber base is a viable concept. *Utne Reader*, *Wired*, and new launches such as *Hope* and *Earth* , among others, all are aimed at segments of this market. All are for-profit ventures. Point currently has at least one proposal on the table that leads down this road; if we put the word out we may have other options as well. Due to the current subscriber decline of WER, the longer the delay in making a decision, the less return Point will get out of any deal. A for-profit venture would probably have to invest at least $2 million over the first 36 months to launch the magazine.

3. Holding pattern option. In this option, a bare-bones WER could produce a low budget newsletter or extra slim magazine, using the donated funds from the subscribers with some additional fundraising. This periodical would be sent to subscribers to keep things going while a full re-launch plan is developed and capitalized. This effort could take the form of a Web site combined with newsletter or other variations. It is unlikely that this effort would provide a strong enough basis to prevent further erosion of the WER subscriber base. The economics of doing a reduced-size periodical are not good. For instance, if we reduce the magazine to 32 pages (75% reduction) we reduce our printing costs by only 42%. Basic overhead and personnel costs follow a similar curve. This approach will likely still require raising at least $170 in new funds in 1997. Will we be able to get renewals and new subscribers during this type of activity? Doesn't look too favorable. See detailed bare-bones budget analysis submitted.

4. Editorial issues. There are several editorial factors that probably account for part of the decline in the magazine's readership over the past several years: too narrow an editorial focus and not enough resources spent on a higher level of writing and journalism. A substantial portion of the material in the magazine is now focused on classically environmental stories and information. This is laudable, but probably does not reflect the interests of the majority of WER's potential readership. In addition, many stories are "old news" that have been covered before or elsewhere. In recent years WER has featured significantly fewer current cultural stories, and far less original writing appears than in days of yore. Such subjects as sex, international perspectives, music, outrageous or weird viewpoints, death and dying, technology assessment, education, money and business, cartoons, and controversial viewpoints aren't getting very many pages in the magazine. Some people think WER has become boring. If the magazine is going to succeed as a sustainable venture in the future it is imperative that a strong, clear editorial posture be developed that reflects the interests of a viable readership. I don't think the old WER model of doing whatever the editor feels like at the time will work anymore. If Point wants to shape WER with a much narrower editorial focus, it will be important to determine if the subscriber base or funders exist to support such an approach. Point may be able to find a specific interest group or entity that would support the magazine if it followed a designated editorial line.

II. THE CORPORATE AND FIDUCIARY SITUATION

Over the last several years the basic management of Point as a non-profit corporation has severely declined and is in bad shape. No corporate records or minutes exist, there is no record of board decisions in regard to numerous contracts and decisions made during this period, and it appears that Point has not followed through on various contractual obligations it has incurred. The board consists of a few people who are personal friends of the president, with no one with extensive publishing expertise. No officers except the President are currently elected.

It is likely that legal action directed at Point will follow shortly if the board does not act to respond to various creditors and others twith whom Point has contractual obligations. This will further detract from the board's ability to deal with matters at hand. The Endswell loan, the Byrd bill, and deferred salaries under contract are the main problem areas.

According to the loan contract with Endswell Foundation, Point was supposed to send them quarterly financial reports and to make payments equal to 25% of grants received. Point has not done so. There is some confusion on when certain grants were received and whether they are covered under the contract. I suggest Point sorts this out and pay Endswell as per the agreement and send them some information about Point's status.

It is likely that Point will have to use some of its current funds to settle these obligations. The use of these funds for this purpose are not included in budget projections in either the draft '96 budget prepared by staff or the proforma '97 budget.

III. STRATEGIC PARTNERSHIPS/NEW VENTURES/LICENSING

There are numerous opportunities to pursue various strategic partnerships or licensing opportunities to both build the WER subscriber base and to use the WER and/or MWEC name. I will address several that merit consideration and action.

- **Merger or joint venture** opportunities to build subscriber base & and/or save money. There appear to be opportunities to acquire new subscribers in a very cost effective manner by merging with similar magazines. *In Context* magazine, now called *Yes!* has 9000 subscribers and is interested in potentially entering into a joint venture with WER, most likely a merger. I have discussed this idea with management at *Yes!* and believe that represents a good opportunity that should be pursued ASAP if WER is planning to continue. It is likely that a thorough search would probably turn up other opportunities along these lines.

- **Licensing versions of the Whole Earth Catalog** in Europe and Asia. Preliminary discussions with contacts from Europe (France) and Japan indicate that there is a good possibility of licensing international versions of the catalog. Point would not make a lot of money from these sort of licensing deals, however they would definitely help in strengthening the WER name and subscriber base, as well as providing international contacts and material that could be used by WER.

- **Book publishing.** The Whole Earth name and some of the content of the WER and the various catalogs can be used as the basis of a successful book publishing program. The proposal developed in late 1994 by Katz & George for a series of Whole Earth Guides is a good illustration of this type of activity.

- **Licensing the Whole Earth name** for use on other commercial ventures. There are opportunities to license the use of the Whole Earth name to produce revenue for Point. Although many of the potential uses (perfume, weapons systems, etc.) of the name would not be acceptable to Point, it is likely that some acceptable uses could be identified and revenue produced.

- **Conference/workshop/speaker program.** There appears to be an opportunity to develop a conference/workshop/speaker program that would be synergistic with WER or could operate as a stand-alone program. Perhaps existing funds could be used here and WER down-sized until a viable conference program is operating.

IV. RECOMMENDATIONS:

1. Re-build the board of directors and operate in a more formal fashion. The board needs members with publishing and/or media expertise, as well concrete connections to the Whole Earth community. A larger board with this expertise and connections can then make the difficult decisions that currently face the board. Consider amending the bylaws if more than seven members are needed. Elect officers and keep minutes. Delegate key functions to an executive committee to maintain efficient operations. Make sure to have at least one key staff person on the board.

   Make sure to communicate the current situation to the Whole Earth community, perhaps thorough the Well conference, and to actively solicit input from the WER community as much as possible.

2. Approve an interim operating budget with regular information updates to the board.

3. Settle as many of Point's outstanding obligations as possible. This is Point's best chance to get the maximum discount when paying its debts and to act in a honorable fashion.

4. Initiate a strategic planning process with a specific goal and timeline to make key decisions for the direction of WER. A operating plan should be decided upon within 30 days.

5. Explore the development of a membership program. This initially could be focused on the greater bay area where we have the greatest concentration of supporter/subscribers. It could be the foundation of a expandable program, could provide volunteers, resources and guidance, and would be the core of periodic get-togethers that could put some of the fun back into this venture. A membership program could link closely to some sort of conference/speaker program.

6. Actively explore the development of a conference/workshop/speaker program.

7. Designate someone to explore the opportunities to sell or license WER as per the 'for-profit' discussion above.

To: Mike Stone
From: David Katz

Thanks for your note; let me respond.

I'm sorry you think that I was threatening to destroy the organization to save it. I don't intend anything of the sort. I am very concerned. I didn't help to write and sign the letter to see everything frittered away. I saw what happened with Sumser and I'm not going to sit by and watch it happen again. What I meant by my comments is that I think if we can't make substantial progress with governance very quickly the entire Whole Earth community should all hear about the situation and have an opportunity to participate in what is going to go down. This kind of openness is a core value of our organization and the Whole Earth institution.

I see your point about the board taking action too quickly. However, from my point of view the board has been virtually negligent for the last year. That is a harsh judgment, but that's what it looks like. Therefore I have little optimism in their judgment. The board is now insisting they have to act in a judicious manner after sitting on their hands for the last year? Ty has been promising (in writing and verbally) for the last 18 months to build the board and he has not done so. Perhaps I am being too harsh, but I don't think so.

In terms of the Endswell loan and the MCF meeting: I have changed my point of view now that I know a lot more of the facts about the organization. At the time I made my earlier comments I was operating under the assumption that there was a coherent basis for dealing with Points problems and some due process was going to be followed. I actually thought there was a genuine hope to salvage WER. My current point of view is that the board is dysfunctional and in denial. The only thing the board has done right lately is put you on the board. I get the impression that Wade is more interested in protecting Ty then he is in helping WER.

I think the core of the current problems center around Ty. I don't think he really knows what he is doing, but he is being basically misleading and perhaps even dishonest. It may be intentional (I doubt it) or just he is just oblivious, but he is being misleading and not honest in his dealing with others. Many examples: why Ruth is so upset; the way the Endsell loan and other promises made by Ty have been handled, his communications with the board, and his communications with me. I like and respect Ty but I don't think he is the right person to be leading this effort and I think he definitely does not have the skills required to make it work.

Lastly, I am surprised that you say we need a publisher. A week ago Ty told me that the board decided that WER didn't need a publisher and that I should take a hike. It didn't ring true and I was hurt and astonished by the way Ty told me. He thought it was up to him to just dismiss me whenever he felt like it. He refused to call a board meeting. He told me the board didn;t want to hear my report. I forced him to call the meeting we ended up having on Monday by being very heavy-handed with him. I didn't hear your voice in this discussion. Have you talked to Ty about this? I can really understand why Ruth is so angry at Ty.

Mike, I feel that I have been very supportive of your role at WER and in this entire process. I don't feel you have supported me at all, until you wrote me today; at least I am not aware of your support.

I still want to make this thing work if we can all work together. I appreciate your writing and all the work you are putting into this process.

Thanks, talk to you soon.

David